SIMMONS FIRST NATIONAL CORP
Form 10-Q
November 06, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 2017 Commission File Number 000-06253

(Exact name of registrant as specified in its charter)

Arkansas (State or other jurisdiction of incorporation or organization)	71-0407808 (I.R.S. Employer Identification No.)
501 Main Street, Pine Bluff, Arkansas (Address of principal executive offices)	71601 (Zip Code)

870-541-1000

(Registrant's telephone number, including area code)

Not Applicable

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer
Smaller reporting company	Emerging Growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.). Yes No

The number of shares outstanding of the Registrant’s Common Stock as of October 31, 2017, was 45,970,797.

Simmons First National Corporation

Quarterly Report on Form 10-Q

September 30, 2017

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Part I: Financial Information
Item I. Financial Statements (Unaudited)

Simmons First National Corporation

Consolidated Balance Sheets

September 30, 2017 and December 31, 2016

(In thousands, except share data)	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Cash and non-interest bearing balances due from banks	$108,675	$117,007
Interest bearing balances due from banks and federal funds sold	323,615	168,652
Cash and cash equivalents	432,290	285,659
Interest bearing balances due from banks - time	4,059	4,563
Investment securities:		
Held-to-maturity	406,033	462,096
Available-for-sale	1,317,420	1,157,354
Total investments	1,723,453	1,619,450
Mortgage loans held for sale	12,614	27,788
Assets held in trading accounts	49	41
Other assets held for sale	182,378	--
Loans:		
Legacy loans	5,211,312	4,327,207
Allowance for loan losses	(42,717)	(36,286)
Loans acquired, net of discount and allowance	1,092,039	1,305,683
Net loans	6,260,634	5,596,604
Premises and equipment	224,376	199,359
Premises held for sale	--	6,052
Foreclosed assets and other real estate owned	31,477	26,895
Interest receivable	30,749	27,788
Bank owned life insurance	148,984	138,620
Goodwill	375,731	348,505
Other intangible assets	55,501	52,959
Other assets	53,075	65,773
Total assets	$9,535,370	$8,400,056
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing transaction accounts	$1,669,860	$1,491,676
Interest bearing transaction accounts and savings deposits	4,344,779	3,956,483
Time deposits	1,310,951	1,287,060
Total deposits	7,325,590	6,735,219

Federal funds purchased and securities sold under agreements to repurchase	121,687	115,029
Other borrowings	522,541	273,159
Subordinated debentures	67,418	60,397
Other liabilities held for sale	176,964	--
Accrued interest and other liabilities	63,971	65,141
Total liabilities	8,278,171	7,248,945
Stockholders' equity:		
Common stock, Class A, $0.01 par value; 120,000,000 shares authorized; 32,212,242 and 31,277,723 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	322	313
Surplus	763,443	711,976
Undivided profits	504,085	454,034
Accumulated other comprehensive loss	(10,651)	(15,212)
Total stockholders' equity	1,257,199	1,151,111
Total liabilities and stockholders' equity	$9,535,370	$8,400,056

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Income

Three and Nine Months Ended September 30, 2017 and 2016

(In thousands, except per share data)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
	(Unaudited)		(Unaudited)	
INTEREST INCOME				
Loans	$77,457	$65,078	$219,734	$194,765
Interest bearing balances due from banks and federal funds sold	650	263	986	511
Investment securities	9,218	7,774	28,659	24,779
Mortgage loans held for sale	159	299	430	872
Assets held in trading accounts	--	4	--	13
TOTAL INTEREST INCOME	87,484	73,418	249,809	220,940
INTEREST EXPENSE				
Deposits	6,030	3,732	15,050	11,162
Federal funds purchased and securities sold under agreements to repurchase	83	59	250	183
Other borrowings	1,875	1,048	4,628	3,114
Subordinated debentures	677	516	1,870	1,603
TOTAL INTEREST EXPENSE	8,665	5,355	21,798	16,062
NET INTEREST INCOME	78,819	68,063	228,011	204,878
Provision for loan losses	5,462	8,294	16,792	15,733
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	73,357	59,769	211,219	189,145
NON-INTEREST INCOME				
Trust income	4,225	3,873	12,550	11,160
Service charges on deposit accounts	8,907	8,771	25,492	23,748
Other service charges and fees	2,433	3,261	7,145	8,846
Mortgage and SBA lending income	3,219	4,339	9,603	11,903
Investment banking income	680	1,131	2,007	2,999
Debit and credit card fees	8,864	7,825	25,457	22,713
Bank owned life insurance income	725	606	2,402	2,429
Gain on sale of securities	3	315	2,302	4,403
Other income	7,276	6,755	15,178	15,066
TOTAL NON-INTEREST INCOME	36,332	36,876	102,136	103,267
NON-INTEREST EXPENSE				
Salaries and employee benefits	35,285	31,784	105,026	99,660

Occupancy expense, net	4,928	4,690	14,459	14,151
Furniture and equipment expense	4,840	4,272	13,833	12,296
Other real estate and foreclosure expense	1,071	1,849	2,177	3,782
Deposit insurance	1,020	1,136	2,480	3,380
Merger related costs	752	1,524	7,879	1,989
Other operating expenses	18,263	17,179	58,035	53,102
TOTAL NON-INTEREST EXPENSE	66,159	62,434	203,889	188,360
INCOME BEFORE INCOME TAXES	43,530	34,211	109,466	104,052
Provision for income taxes	14,678	10,782	35,429	34,209
NET INCOME	28,852	23,429	74,037	69,843
Preferred stock dividends	--	--	--	24
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$28,852	$23,429	$74,037	$69,819
BASIC EARNINGS PER SHARE	$0.90	$0.77	$2.33	$2.29
DILUTED EARNINGS PER SHARE	$0.89	$0.76	$2.31	$2.28

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Comprehensive Income

Three and Nine Months Ended September 30, 2017 and 2016

(In thousands, except per share data)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
	(Unaudited)		(Unaudited)	
NET INCOME	$28,852	$23,429	$74,037	$69,843
OTHER COMPREHENSIVE INCOME				
Unrealized holding gains (losses) arising during the period on available-for-sale securities	1,107	(3,175)	9,807	12,271
Less: Reclassification adjustment for realized gains included in net income	3	315	2,302	4,403
Other comprehensive gain (loss), before tax effect	1,104	(3,490)	7,505	7,868
Less: Tax effect of other comprehensive gain (loss)	433	(1,369)	2,944	3,086
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	671	(2,121)	4,561	4,782
COMPREHENSIVE INCOME	$29,523	$21,308	$78,598	$74,625

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2017 and 2016

(In thousands)	September 30, 2017 (Unaudited)	September 30, 2016
OPERATING ACTIVITIES		
Net income	$74,037	$69,843
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	14,589	12,229
Provision for loan losses	16,792	15,733
Gain on sale of investments	(2,302)	(4,403)
Net accretion of investment securities and assets	(19,472)	(22,863)
Net amortization on borrowings	319	314
Stock-based compensation expense	5,675	2,679
Gain on sale of premises and equipment, net of impairment	(615)	(159)
Gain on sale of foreclosed assets and other real estate owned	(801)	(1,731)
Gain on sale of mortgage loans held for sale	(8,809)	(11,150)
Fair value write-down of closed branches	325	3,000
Deferred income taxes	4,962	1,070
Increase in cash surrender value of bank owned life insurance	(2,402)	(2,429)
Originations of mortgage loans held for sale	(353,714)	(472,902)
Proceeds from sale of mortgage loans held for sale	377,697	486,248
Changes in assets and liabilities:		
Interest receivable	(1,129)	(799)
Assets held in trading accounts	(8)	1,453
Other assets	8,249	16,680
Accrued interest and other liabilities	(9,738)	(13,950)
Income taxes payable	4,819	(2,286)
Net cash provided by operating activities	108,474	76,577
INVESTING ACTIVITIES		
Net originations of loans	(427,789)	(140,240)
Decrease in due from banks - time	2,488	9,714
Purchases of premises and equipment, net	(28,971)	(8,840)
Proceeds from sale of premises and equipment	3,475	890
Purchases of other real estate owned	(1,021)	--
Proceeds from sale of foreclosed assets and other real estate owned	11,401	24,095
Proceeds from sale of available-for-sale securities	327,218	249,079
Proceeds from maturities of available-for-sale securities	76,615	137,832
Purchases of available-for-sale securities	(380,308)	(498,011)
Proceeds from maturities of held-to-maturity securities	57,896	215,846
Purchases of held-to-maturity securities	(860)	(6,162)
Proceeds from bank owned life insurance death benefits	--	2,043

Purchases of bank owned life insurance	(143)	(143)
Proceeds from the sale of insurance lines of business	3,707	--
Cash paid in business combinations, net of cash received	(22,000)	--
Cash received in business combinations, net of cash paid	--	106,419
Net cash (used in) provided by investing activities	(378,292)	92,522
FINANCING ACTIVITIES		
Net change in deposits	201,395	21,428
Repayments of subordinated debentures	--	(594)
Dividends paid on preferred stock	--	(24)
Dividends paid on common stock	(23,986)	(21,227)
Net change in other borrowed funds	246,382	48,940
Net change in federal funds purchased and securities sold under agreements to repurchase	(10,505)	11,658
Net shares issued under stock compensation plans	2,545	3,247
Shares issued under employee stock purchase plan	618	586
Redemption of preferred stock	--	(30,852)
Net cash provided by financing activities	416,449	33,162
INCREASE IN CASH AND CASH EQUIVALENTS	146,631	202,261
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	285,659	252,262
CASH AND CASH EQUIVALENTS, END OF PERIOD	$432,290	$454,523

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Stockholders' Equity

Nine Months Ended September 30, 2017 and 2016

(In thousands, except share data)	Preferred Stock	Common Stock	Surplus	Accumulated Other Comprehensive Income (Loss)	Undivided Profits	Total
Balance, December 31, 2015	$30,852	$303	$662,378	$(2,665)	$385,987	$1,076,855
Comprehensive income	--	--	--	4,782	69,843	74,625
Stock issued for employee stock purchase plan – 15,735 shares	--	--	586	--	--	586
Stock-based compensation plans, net – 137,706 shares	--	2	5,924	--	--	5,926
Stock issued for Citizens National acquisition – 835,741 common shares	--	8	41,244	--	--	41,252
Preferred stock redeemed	(30,852)	--	--	--	--	(30,852)
Dividends on preferred stock	--	--	--	--	(24)	(24)
Dividends on common stock – $0.72 per share	--	--	--	--	(21,227)	(21,227)
Balance, September 30, 2016 (Unaudited)	--	313	710,132	2,117	434,579	1,147,141
Comprehensive income	--	--	--	(17,329)	26,971	9,642
Stock-based compensation plans, net – 10,109 shares	--	--	1,844	--	--	1,844
Cash dividends – $0.24 per share	--	--	--	--	(7,516)	(7,516)
Balance, December 31, 2016	--	313	711,976	(15,212)	454,034	1,151,111
Comprehensive income	--	--	--	4,561	74,037	78,598
Stock issued for employee stock purchase plan – 13,001 shares	--	--	618	--	--	618
Stock-based compensation plans, net – 121,548 shares	--	1	8,219	--	--	8,220
Stock issued for Hardeman acquisition – 799,970 common shares	--	8	42,630	--	--	42,638
Dividends on common stock – $0.75 per share	--	--	--	--	(23,986)	(23,986)
Balance, September 30, 2017 (Unaudited)	$--	$322	$763,443	$(10,651)	$504,085	$1,257,199

See Condensed Notes to Consolidated Financial Statements.

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SIMMONS FIRST NATIONAL CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Simmons First National Corporation (the "Company") and its subsidiaries have been prepared based upon Securities and Exchange Commission ("SEC") rules that permit reduced disclosures for interim periods. Certain information and footnote disclosures have been condensed or omitted in accordance with those rules and regulations. The accompanying consolidated balance sheet as of December 31, 2016, was derived from audited financial statements. In the opinion of management, these financial statements reflect all adjustments that are necessary for a fair presentation of interim results of operations, including normal recurring accruals. Significant intercompany accounts and transactions have been eliminated in consolidation. The results for the interim periods are not necessarily indicative of results for the full year. For a more complete discussion of significant accounting policies and certain other information, this report should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the SEC on February 28, 2017.

The preparation of financial statements, in accordance with accounting principles generally accepted in the United States ("US GAAP"), requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income items and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the consolidated financial statements and actual results may differ from these estimates. Such estimates include, but are not limited to, our allowance for loan losses.

Certain gains and fees were reclassified within non-interest income categories in the 2016 statements of income to conform to the 2017 presentation. These reclassifications were not material to the consolidated financial statements.

Recently Adopted Accounting Standards

<u>Premium Amortization on Purchased Callable Debt Securities</u> – In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-08, *Receivables – Nonrefundable Fees and*

Other Costs (Topic 310-20): Premium Amortization on Purchased Callable Debt Securities (“ASU 2017-08”), that amends the amortization period for certain purchased callable debt securities held at a premium. Specifically, the amendments shorten the amortization period by requiring that the premium be amortized to the earliest call date. Under previous US GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The effective date is for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. As permitted, we elected to early adopt the provisions of ASU 2017-08 during the first quarter 2017. The adoption of this standard did not have a material effect on our results of operations, financial position or disclosures.

Employee Share-Based Payments – In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”), which requires all excess tax benefits and tax deficiencies related to share-based payment awards be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in the pool of excess tax benefits included in additional paid-in capital, if such pool was available. Due to excess tax benefits no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method when computing earnings per share should exclude the amount of excess tax benefits that would have previously been recognized in additional paid-in capital. Additionally, excess tax benefits should be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case. ASU 2016-09 also provides that an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current US GAAP) or account for forfeitures when they occur. ASU 2016-09 changes the threshold to qualify for equity classification (rather than as a liability) to permit withholding up to the maximum statutory tax rates (rather than the minimum as was previously the case) in the applicable jurisdictions. ASU 2016-09 became effective for annual and interim periods beginning after December 15, 2016. The prospective adoption of this standard has not had a material effect on our results of operations, financial position or disclosures. The impact of the requirement to report those income tax effects in earnings reduced reported federal and state income tax expense by approximately $22,000 and $1.5 million for the three and nine month periods ended September 30, 2017, respectively.

Recently Issued Accounting Standards

Derivatives and Hedging: Targeted Improvements – In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging* Activities ("ASU 2017-12"), that changes both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results in order to better align a company's risk management activities and financial reporting for hedging relationships. In summary, this amendment 1) expands the types of transactions eligible for hedge accounting; 2) eliminates the separate measurement and presentation of hedge ineffectiveness; 3) simplifies the requirements around the assessment of hedge effectiveness; 4) provides companies more time to finalize hedge documentation; and 5) enhances presentation and disclosure requirements. The effective date is for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. All transition requirements and elections should be applied to existing hedging relationships on the date of adoption and the effects should be reflected as of the beginning of the fiscal year of adoption. We are currently evaluating the impact this standard will have on our results of operations, financial position or disclosures, but it is not expected to have a material impact.

Stock Compensation: Scope of Modification Accounting – In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09"), that provides clarity and reduces both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, to a change to the terms or conditions of a share-based payment award. An entity may change the terms or conditions of a share-based payment award for many different reasons, and the nature and effect of the change can vary significantly. The guidance clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. ASU 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. ASU 2017-09 is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

Goodwill Impairment – In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"), that eliminates Step 2 from the goodwill impairment test which required entities to compare the implied fair value of goodwill to its carrying amount. Under the amendments, the goodwill impairment will be measured as the excess of the reporting unit's carrying amount over its fair value. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The effective date is for fiscal years beginning after December 15, 2019, with early adoption permitted for interim or annual impairment tests beginning in 2017. ASU 2017-04 is not expected to have a material effect on our results of operations, financial position or disclosures.

Statement of Cash Flows – In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), designed to address the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and distributions received from equity method investees. The amendments also provide guidance on when an entity should separate or aggregate cash flows based on the predominance principle. The effective date is for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new standard is required to be applied retrospectively, but may be applied prospectively if retrospective application would be impracticable. Since the amendment applies to the classification of cash flows, no impact is anticipated on our financial position or results of operations. Additionally, although we do not expect it to have a material impact, we are currently evaluating the impact of this amendment on our financial statement disclosures.

Credit Losses on Financial Instruments – In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which requires earlier measurement of credit losses, expands the range of information considered in determining expected credit losses and enhances disclosures. The main objective of ASU 2016-13 is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments replace the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The effective date for these amendments is for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We have formed a cross functional team that is assessing our data and system needs and evaluating the impact of adopting the new guidance. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact on our results of operations, financial position or disclosures.

Leases – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), that establish the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. The new guidance results in a more consistent representation of the rights and obligations arising from leases by requiring lessees to recognize the lease asset and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. The effective date is for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Based upon leases that were outstanding as of September 30, 2017, we do not expect the new standard to have a material impact on our results of operations, but anticipate increases in our assets and liabilities. Decisions to repurchase, modify or renew leases prior to the implementation date will impact the level of materiality.

Financial Assets and Financial Liabilities – In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"), that makes changes primarily affecting the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The effective date is for fiscal periods beginning after December 15, 2017, including interim periods within those fiscal years. ASU 2016-01 is not expected to have a material impact on the Company's results of operations or financial position. Additionally, although we do not expect a material impact, we are continuing to evaluate the impact of this ASU on our fair value disclosures in the notes to the consolidated financial statements.

Revenue Recognition – In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), that outlines a single comprehensive revenue recognition model for entities to follow in accounting for revenue from contracts with customers. The core principle of this revenue model is that an entity should recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive for those goods or services. In July 2015, the FASB issued ASU No. 2015-14, deferring the effective date to annual and interim periods beginning after December 15, 2017. The adoption of this standard is not expected to have a material effect on our results of operations, financial position or disclosures. The guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other US GAAP, which comprises a significant portion of our revenue stream. We believe that for most revenue streams within the scope of ASU 2015-14, the amendments will not change the timing of when the revenue is recognized. We will continue to evaluate the impact focusing on noninterest income sources within the scope of the new guidance; however, we do not expect adoption to have a material impact on our results of operations or financial position. Additionally, although we do not expect a material impact, we are continuing to evaluate the impact of the additional disclosures in our notes to the consolidated financial statements required by this guidance.

There have been no other significant changes to the Company's accounting policies from the 2016 Form 10-K. Presently, the Company is not aware of any other changes to the Accounting Standards Codification that will have a material impact on the Company's present or future financial position or results of operations.

Acquisition Accounting, Loans Acquired

The Company accounts for its acquisitions under ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the loans acquired is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

The Company evaluates loans acquired, other than purchased impaired loans, in accordance with the provisions of ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. The fair value discount on these loans is accreted into interest income over the weighted average life of the loans using a constant yield method. The Company evaluates purchased impaired loans in accordance with the provisions of ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected.

For impaired loans accounted for under ASC Topic 310-30, the Company continues to estimate cash flows expected to be collected on these loans. The Company evaluates at each balance sheet date whether the present value of the loans determined using the effective interest rates has decreased significantly and, if so, recognizes a provision for loan loss in the consolidated statement of income. For any significant increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the remaining life of the loan.

For further discussion of our acquisition and loan accounting, see Note 2, Acquisitions, and Note 6, Loans Acquired.

Earnings Per Common Share ("EPS")

Basic EPS is computed by dividing reported net income available to common shareholders by weighted average number of common shares outstanding during each period. Diluted EPS is computed by dividing reported net income available to common shareholders by the weighted average common shares and all potential dilutive common shares outstanding during the period.

Following is the computation of EPS for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2017	2016	2017	2016
Net income available to common shareholders	$28,852	$23,429	$74,037	$69,819
Average common shares outstanding	32,214	30,621	31,797	30,434
Average potential dilutive common shares	210	223	210	223
Average diluted common shares	32,424	30,844	32,007	30,657
Basic earnings per share	$0.90	$0.77	$2.33	$2.29
Diluted earnings per share [1]	$0.89	$0.76	$2.31	$2.28

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(1) Stock options to purchase 3,305 and 61,395 shares for the three and nine months ended September 30, 2016 were not included in the diluted EPS calculation because the exercise price of those options exceeded the average market price for each period. There were no stock options excluded from the earnings per share calculation due to the related exercise price exceeding the average market price for the three and nine months ended September 30, 2017.

NOTE 2: ACQUISITIONS

Hardeman County Investment Company, Inc.

On May 15, 2017, the Company completed the acquisition of Hardeman County Investment Company, Inc. (“Hardeman”), headquartered in Jackson, Tennessee, including its wholly-owned bank subsidiary, First South Bank. The Company issued 799,970 shares of its common stock valued at approximately $42.6 million as of May 15, 2017, plus $30.0 million in cash in exchange for all outstanding shares of Hardeman common stock.

Prior to the acquisition, Hardeman conducted banking business from 10 branches located in western Tennessee. Including the effects of the acquisition method accounting adjustments, the Company acquired approximately $462.9 million in assets, including approximately $251.6 million in loans (inclusive of loan discounts) and approximately $389.0 million in deposits. The Company completed the systems conversion and merged Hardeman into Simmons Bank in September 2017. As part of the systems conversion, 5 existing Simmons and First South Bank branches were consolidated or closed.

Goodwill of $29.4 million was recorded as a result of the transaction. The merger strengthened the Company’s position in the western Tennessee market, and the Company will be able to achieve cost savings by integrating the two companies and combining accounting, data processing, and other administrative functions, all of which gave rise to the goodwill recorded. The goodwill will not be deductible for tax purposes.

A summary, at fair value, of the assets acquired and liabilities assumed in the Hardeman transaction, as of the acquisition date, is as follows:

(In thousands)	Acquired from Hardeman	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash and due from banks	$8,001	$ --	$8,001
Interest bearing balances due from banks - time	1,984	--	1,984
Investment securities	170,654	(316)	170,338
Loans acquired	257,641	(5,992)	251,649
Allowance for loan losses	(2,382)	2,382	--
Foreclosed assets	1,083	(452)	631
Premises and equipment	9,905	1,258	11,163
Bank owned life insurance	7,819	--	7,819
Goodwill	11,485	(11,485)	--
Core deposit intangible	--	7,840	7,840
Other intangibles	--	830	830
Other assets	2,639	(1)	2,638
Total assets acquired	$468,829	$ (5,936)	$462,893
Liabilities Assumed			
Deposits:			
Non-interest bearing transaction accounts	$76,555	$ --	$76,555
Interest bearing transaction accounts and savings deposits	214,872	--	214,872
Time deposits	97,917	(368)	97,549
Total deposits	389,344	(368)	388,976
Securities sold under agreement to repurchase	17,163	--	17,163
Other borrowings	3,000	--	3,000
Subordinated debentures	6,702	--	6,702
Accrued interest and other liabilities	1,891	1,924	3,815
Total liabilities assumed	418,100	1,556	419,656
Equity	50,729	(50,729)	--
Total equity assumed	50,729	(50,729)	--
Total liabilities and equity assumed	$468,829	$ (49,173)	$419,656
Net assets acquired			43,237
Purchase price			72,639
Goodwill			$29,402

The purchase price allocation and certain fair value measurements remain preliminary due to the timing of the acquisition. Management will continue to review the estimated fair values and evaluate the assumed tax positions. The Company expects to finalize its analysis of the acquired assets and assumed liabilities in this transaction over the next few months, within one year of the acquisition. Therefore, adjustments to the estimated amounts and carrying values may occur.

The Company's operating results for 2017 include the operating results of the acquired assets and assumed liabilities of Hardeman subsequent to the acquisition date.

Citizens National Bank

On September 9, 2016, the Company completed the acquisition of Citizens National Bank ("Citizens"), headquartered in Athens, Tennessee. The Company issued 835,741 shares of its common stock valued at approximately $41.3 million as of September 9, 2016, plus $35.0 million in cash in exchange for all outstanding shares of Citizens common stock.

Prior to the acquisition, Citizens conducted banking business from 9 branches located in east Tennessee. Including the effects of the acquisition method accounting adjustments, the Company acquired approximately $585.1 million in assets, including approximately $340.9 million in loans (inclusive of loan discounts) and approximately $509.9 million in deposits. The Company completed the systems conversion and merged Citizens into Simmons Bank in October 2016.

Goodwill of $23.4 million was recorded as a result of the transaction. The merger strengthened the Company's position in the east Tennessee market, and the Company is able to achieve cost savings by integrating the two companies and combining accounting, data processing, and other administrative functions, all of which gave rise to the goodwill recorded. The goodwill will be deductible for tax purposes.

A summary, at fair value, of the assets acquired and liabilities assumed in the Citizens transaction, as of the acquisition date, is as follows:

(In thousands)	Acquired from Citizens	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash and due from banks	$131,467	$(351)	$131,116
Federal funds sold	10,000	--	10,000
Investment securities	61,987	1	61,988
Loans acquired	350,361	(9,511)	340,850
Allowance for loan losses	(4,313)	4,313	--
Foreclosed assets	4,960	(1,518)	3,442
Premises and equipment	6,746	1,339	8,085
Bank owned life insurance	6,632	--	6,632
Core deposit intangible	--	5,075	5,075
Other intangibles	--	591	591
Other assets	17,364	6	17,370
Total assets acquired	$585,204	$(55)	$585,149
Liabilities Assumed			
Deposits:			
Non-interest bearing transaction accounts	$109,281	$--	$109,281
Interest bearing transaction accounts and savings deposits	204,912	--	204,912
Time deposits	195,664	--	195,664
Total deposits	509,857	--	509,857
Securities sold under agreement to repurchase	13,233	--	13,233
FHLB borrowings	4,000	47	4,047
Accrued interest and other liabilities	3,558	1,530	5,088
Total liabilities assumed	530,648	1,577	532,225
Equity	54,556	(54,556)	--
Total equity assumed	54,556	(54,556)	--
Total liabilities and equity assumed	$585,204	$(52,979)	$532,225
Net assets acquired			52,924
Purchase price			76,300
Goodwill			$23,376

During 2017, the Company finalized its analysis of the loans acquired along with the other acquired assets and assumed liabilities in this transaction.

The Company’s operating results for 2017 and 2016 include the operating results of the acquired assets and assumed liabilities of Citizens subsequent to the acquisition date.

The following is a description of the methods used to determine the fair values of significant assets and liabilities presented in the acquisitions above.

Cash and due from banks, time deposits due from banks and federal funds sold – The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets.

Investment securities – Investment securities were acquired with an adjustment to fair value based upon quoted market prices if material. Otherwise, the carrying amount of these assets was deemed to be a reasonable estimate of fair value.

Loans acquired – Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and current discount rates. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns. The discount rate does not include a factor for credit losses as that has been included in the estimated cash flows. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques.

Foreclosed assets – These assets are presented at the estimated present values that management expects to receive when the properties are sold, net of related costs of disposal.

Premises and equipment – Bank premises and equipment were acquired with an adjustment to fair value, which represents the difference between the Company’s current analysis of property and equipment values completed in connection with the acquisition and book value acquired.

Bank owned life insurance – Bank owned life insurance is carried at its current cash surrender value, which is the most reasonable estimate of fair value.

Goodwill – The consideration paid as a result of the acquisition exceeded the fair value of the assets acquired, resulting in an intangible asset, goodwill. Goodwill established prior to the acquisitions, if applicable, was written off.

Core deposit intangible – This intangible asset represents the value of the relationships that the acquired banks had with their deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base and the net maintenance cost attributable to customer deposits. Core deposit intangible established prior to the acquisitions, if applicable, was written off.

Other intangibles – These intangible assets represent the value of the relationships that Citizens had with their trust customers and Hardeman had with their insurance customers. The fair value of these intangible assets was estimated based on a combination of discounted cash flow methodology and a market valuation approach. Other intangibles established prior to the acquisitions, if applicable, were written off.

Other assets – The fair value adjustment results from certain assets whose value was estimated to be less than book value, such as certain prepaid assets, receivables and other miscellaneous assets. Otherwise, the carrying amount of these assets was deemed to be a reasonable estimate of fair value.

Deposits – The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. The Company performed a fair value analysis of the estimated weighted average interest rate of the certificates of deposits compared to the current market rates and recorded a fair value adjustment for the difference when material.

Securities sold under agreement to repurchase – The carrying amount of securities sold under agreement to repurchase is a reasonable estimate of fair value based on the short-term nature of these liabilities.

FHLB and other borrowings – The fair value of Federal Home Loan Bank and other borrowings is estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities.

Subordinated debentures – The fair value of subordinated debentures is estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities. Due to the floating rate nature of the debenture, the fair value approximates book value as of the date acquired.

Accrued interest and other liabilities – The adjustment establishes a liability for unfunded commitments equal to the fair value of that liability at the date of acquisition.

See Note 22 for additional information related to other acquisitions that were completed during the fourth quarter of 2017.

NOTE 3: INVESTMENT SECURITIES

The amortized cost and fair value of investment securities that are classified as held-to-maturity ("HTM") and available-for-sale ("AFS") are as follows:

(In thousands)	September 30, 2017 Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	December 31, 2016 Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Held-to-Maturity								
U.S. Government agencies	$66,928	$40	$(140)	$66,828	$76,875	$107	$(182)	$76,800
Mortgage-backed securities	16,972	56	(191)	16,837	19,773	63	(249)	19,587
State and political subdivisions	320,116	6,397	(55)	326,458	362,532	4,967	(842)	366,657
Other securities	2,017	--	--	2,017	2,916	--	--	2,916
Total HTM	$406,033	$6,493	$(386)	$412,140	$462,096	$5,137	$(1,273)	$465,960
Available-for-Sale								
U.S. Treasury	$--	$--	$--	$--	$300	$--	$--	$300
U.S. Government agencies	210,004	273	(2,057)	208,220	140,005	67	(2,301)	137,771
Mortgage-backed securities	973,111	120	(13,533)	959,698	885,783	178	(17,637)	868,324
State and political subdivisions	87,405	161	(2,744)	84,822	108,374	38	(5,469)	102,943
Other securities	63,295	1,385	--	64,680	47,022	996	(2)	48,016
Total AFS	$1,333,815	$1,939	$(18,334)	$1,317,420	$1,181,484	$1,279	$(25,409)	$1,157,354

Securities with limited marketability, such as stock in the Federal Reserve Bank and the Federal Home Loan Bank, are carried at cost and are reported as other AFS securities in the table above.

Certain investment securities are valued at less than their historical cost. Total fair value of these investments at September 30, 2017, was $1.2 billion, which is approximately 69.7% of the Company's combined AFS and HTM investment portfolios.

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2017:

(In thousands)	Less Than 12 Months Estimated Fair Value	Less Than 12 Months Gross Unrealized Losses	12 Months or More Estimated Fair Value	12 Months or More Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
Held-to-Maturity						
U.S. Government agencies	$12,947	$ (53)	$39,913	$ (87)	$52,860	$ (140)
Mortgage-backed securities	4,094	(42)	6,687	(149)	10,781	(191)
State and political subdivisions	11,300	(41)	2,634	(14)	13,934	(55)
Total HTM	$28,341	$ (136)	$49,234	$ (250)	$77,575	$ (386)
Available-for-Sale						
U.S. Government agencies	$66,254	$ (750)	$82,211	$ (1,307)	$148,465	$ (2,057)
Mortgage-backed securities	626,560	(7,458)	273,883	(6,075)	900,443	(13,533)
State and political subdivisions	1,813	(32)	76,781	(2,712)	78,594	(2,744)
Other securities	--	--	100	--	100	--
Total AFS	$694,627	$ (8,240)	$432,975	$ (10,094)	$1,127,602	$ (18,334)

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These declines primarily resulted from the rate for these investments yielding less than current market rates. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. Management does not have the intent to sell these securities and management believes it is more likely than not the Company will not have to sell these securities before recovery of their amortized cost basis less any current period credit losses.

Declines in the fair value of HTM and AFS securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company expects to receive full value for the securities. Furthermore, as of September 30, 2017, management also had the ability and intent to hold the securities classified as AFS for a period of time sufficient for a recovery of cost. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of September 30, 2017, management believes the impairments detailed in the table above are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

Income earned on securities for the three and nine months ended September 30, 2017 and 2016, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2017	2016	2017	2016
Taxable:				
Held-to-maturity	$625	$771	$1,922	$3,094
Available-for-sale	5,949	4,005	18,003	12,931
Non-taxable:				
Held-to-maturity	2,135	2,617	6,635	8,162
Available-for-sale	509	381	2,099	592
Total	$9,218	$7,774	$28,659	$24,779

The amortized cost and estimated fair value by maturity of securities are shown in the following table. Securities are classified according to their contractual maturities without consideration of principal amortization, potential prepayments or call options. Accordingly, actual maturities may differ from contractual maturities.

(In thousands)	Held-to-Maturity Amortized Cost	Fair Value	Available-for-Sale Amortized Cost	Fair Value
One year or less	$50,829	$50,838	$21,211	$21,145
After one through five years	105,323	105,823	81,147	80,388
After five through ten years	99,399	100,902	14,532	14,427
After ten years	133,510	137,740	181,619	178,182
Securities not due on a single maturity date	16,972	16,837	973,111	959,698
Other securities (no maturity)	--	--	62,195	63,580
Total	$406,033	$412,140	$1,333,815	$1,317,420

The carrying value, which approximates the fair value, of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $985.8 million at September 30, 2017 and $915.2 million at December 31, 2016.

There were $3,000 of gross realized gains and no realized losses from the sale of securities during the three months ended September 30, 2017 and $2.3 million of realized gains and $5,000 of realized losses from the sale of securities during the nine months ended September 30, 2017. There were $315,000 of gross realized gains and no realized losses from the sale of securities during the three months ended September 30, 2016 and $4.4 million of realized gains and no realized losses from the sale of securities during the nine months ended September 30, 2016.

The state and political subdivision debt obligations are predominately non-rated bonds representing small issuances, primarily in Arkansas, Missouri, Tennessee and Texas issues, which are evaluated on an ongoing basis.

NOTE 4: OTHER ASSETS AND OTHER LIABILITIES HELD FOR SALE

On August 28, 2017, the Company, through its bank subsidiary, Simmons Bank, acquired the stock of Heartland Bank at a public auction to satisfy certain indebtedness of its holding company, Rock Bancshares, Inc. The Company recorded $182.4 million of other assets held for sale and $177.0 of other liabilities held for sale, at fair value as of the date of the transaction.

The Company is actively marketing and exploring a plan to sell the acquired assets and liabilities of Heartland Bank and expects to complete a sale within one year of acquisition. Heartland Bank remains a separate operating entity, and any sale will be conducted on terms that are mutually agreeable to both parties.

The following is a description of the methods used to determine the purchase price allocation for fair values of significant assets and liabilities presented in the Heartland Bank transaction.

Cash and due from banks, time deposits due from banks and federal funds sold – The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets.

Investment securities – The carrying amount of these assets was deemed to be a reasonable estimate of fair value, as there were no material differences to fair value based upon quoted market prices.

Loans acquired – Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and current discount rates. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns. The discount rate does not include a factor for credit losses as that has been included in the estimated cash flows. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques.

Premises and equipment – Bank premises and equipment were acquired with an adjustment to fair value, which represents the difference between the Company’s current analysis of property and equipment values completed in connection with the acquisition and book value acquired.

Core deposit intangible – This intangible asset represents the value of the relationships that Heartland Bank had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base and the net maintenance cost attributable to customer deposits.

Deposits – The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. The Company performed a fair value analysis of the estimated weighted average interest rate of the certificates of deposits compared to the current market rates and determined the difference was not material.

NOTE 5: LOANS AND ALLOWANCE FOR LOAN LOSSES

At September 30, 2017, the Company's loan portfolio was $6.303 billion, compared to $5.633 billion at December 31, 2016. The various categories of loans are summarized as follows:

(In thousands)	September 30, 2017	December 31, 2016
Consumer:		
Credit cards	$176,316	$184,591
Other consumer	317,946	303,972
Total consumer	494,262	488,563
Real Estate:		
Construction	515,274	336,759
Single family residential	1,048,403	904,245
Other commercial	2,231,223	1,787,075
Total real estate	3,794,900	3,028,079
Commercial:		
Commercial	688,960	639,525
Agricultural	207,849	150,378
Total commercial	896,809	789,903
Other	25,341	20,662
Loans	5,211,312	4,327,207
Loans acquired, net of discount and allowance (1)	1,092,039	1,305,683
Total loans	$6,303,351	$5,632,890

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(1) See Note 6, Loans Acquired, for segregation of loans acquired by loan class.

Loan Origination/Risk Management – The Company seeks to manage its credit risk by diversifying its loan portfolio, determining that borrowers have adequate sources of cash flow for loan repayment without liquidation of collateral; obtaining and monitoring collateral; providing an adequate allowance for loans losses by regularly reviewing loans through the internal loan review process. The loan portfolio is diversified by borrower, purpose and industry. The Company seeks to use diversification within the loan portfolio to reduce its credit risk, thereby minimizing the adverse impact on the portfolio, if weaknesses develop in either the economy or a particular segment of borrowers. Collateral requirements are based on credit assessments of borrowers and may be used to recover the debt in case of default. Furthermore, a factor that influenced the Company's judgment regarding the allowance for loan losses consists of a five-year historical loss average segregated by each primary loan sector. On an annual basis, historical loss rates are calculated for each sector.

Consumer – The consumer loan portfolio consists of credit card loans and other consumer loans. Credit card loans are diversified by geographic region to reduce credit risk and minimize any adverse impact on the portfolio. Although they are regularly reviewed to facilitate the identification and monitoring of creditworthiness, credit card loans are unsecured loans, making them more susceptible to be impacted by economic downturns resulting in increasing unemployment. Other consumer loans include direct and indirect installment loans and overdrafts. Loans in this portfolio segment are sensitive to unemployment and other key consumer economic measures.

Real estate – The real estate loan portfolio consists of construction loans, single family residential loans and commercial loans. Construction and development loans ("C&D") and commercial real estate loans ("CRE") can be particularly sensitive to valuation of real estate. Commercial real estate cycles are inevitable. The long planning and production process for new properties and rapid shifts in business conditions and employment create an inherent tension between supply and demand for commercial properties. While general economic trends often move individual markets in the same direction over time, the timing and magnitude of changes are determined by other forces unique to each market. CRE cycles tend to be local in nature and longer than other credit cycles. Factors influencing the CRE market are traditionally different from those affecting residential real estate markets; thereby making predictions for one market based on the other difficult. Additionally, submarkets within commercial real estate – such as office, industrial, apartment, retail and hotel – also experience different cycles, providing an opportunity to lower the overall risk through diversification across types of CRE loans. Management realizes that local demand and supply conditions will also mean that different geographic areas will experience cycles of different amplitude and length. The Company monitors these loans closely.

Commercial – The commercial loan portfolio includes commercial and agricultural loans, representing loans to commercial customers and farmers for use in normal business or farming operations to finance working capital needs, equipment purchase or other expansion projects. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrowers, particularly cash flow from customers' business or farming operations. The Company continues its efforts to keep loan terms short, reducing the negative impact of upward movement in interest rates. Term loans are generally set up with one or three year balloons, and the Company has recently instituted a pricing mechanism for commercial loans. It is standard practice to require personal guaranties on commercial loans for closely-held or limited liability entities.

Nonaccrual and Past Due Loans – Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Nonaccrual loans, excluding loans acquired, segregated by class of loans, are as follows:

(In thousands)	September 30, 2017	December 31, 2016
Consumer:		
Credit cards	$ 273	$ 373
Other consumer	3,880	1,793
Total consumer	4,153	2,166
Real estate:		
Construction	2,403	3,411
Single family residential	13,034	12,139
Other commercial	18,811	12,385
Total real estate	34,248	27,935
Commercial:		
Commercial	13,827	7,765
Agricultural	2,210	1,238
Total commercial	16,037	9,003
Total	$ 54,438	$ 39,104

An age analysis of past due loans, excluding loans acquired, segregated by class of loans, is as follows:

(In thousands)	Gross 30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days Past Due & Accruing
September 30, 2017						
Consumer:						
Credit cards	$655	$492	$1,147	$175,169	$176,316	$ 218
Other consumer	4,870	2,570	7,440	310,506	317,946	4
Total consumer	5,525	3,062	8,587	485,675	494,262	222
Real estate:						
Construction	440	1,478	1,918	513,356	515,274	--
Single family residential	5,516	4,785	10,301	1,038,102	1,048,403	--
Other commercial	3,032	8,945	11,977	2,219,246	2,231,223	--
Total real estate	8,988	15,208	24,196	3,770,704	3,794,900	--
Commercial:						
Commercial	991	10,745	11,736	677,224	688,960	10
Agricultural	469	1,793	2,262	205,587	207,849	--
Total commercial	1,460	12,538	13,998	882,811	896,809	10
Other	--	--	--	25,341	25,341	--
Total	$15,973	$30,808	$46,781	$5,164,531	$5,211,312	$ 232
December 31, 2016						
Consumer:						
Credit cards	$716	$275	$991	$183,600	$184,591	$ 275
Other consumer	3,786	1,027	4,813	299,159	303,972	11
Total consumer	4,502	1,302	5,804	482,759	488,563	286
Real estate:						
Construction	1,420	1,246	2,666	334,093	336,759	--
Single family residential	6,310	5,927	12,237	892,008	904,245	14
Other commercial	4,212	6,722	10,934	1,776,141	1,787,075	--
Total real estate	11,942	13,895	25,837	3,002,242	3,028,079	14
Commercial:						
Commercial	2,040	5,296	7,336	632,189	639,525	--
Agricultural	121	1,215	1,336	149,042	150,378	--
Total commercial	2,161	6,511	8,672	781,231	789,903	--
Other	--	--	--	20,662	20,662	--
Total	$18,605	$21,708	$40,313	$4,286,894	$4,327,207	$ 300

Impaired Loans – A loan is considered impaired when it is probable that the Company will not receive all amounts due according to the contractual terms of the loans, including scheduled principal and interest payments. This includes loans that are delinquent 90 days or more, nonaccrual loans and certain other loans identified by management. Certain other loans identified by management consist of performing loans with specific allocations of the allowance for loan losses. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate, or the fair value of the collateral if the loan is collateral dependent.

Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. Impaired loans, or portions thereof, are charged-off when deemed uncollectible.

Impaired loans, net of government guarantees and excluding loans acquired, segregated by class of loans, are as follows:

(In thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
September 30, 2017						Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
Consumer:									
Credit cards	$ 273	$ 273	$ --	$ 273	$ --	$ 283	$ 12	$ 292	$ 23
Other consumer	4,022	3,880	--	3,880	--	3,314	23	2,711	53
Total consumer	4,295	4,153	--	4,153	--	3,597	35	3,003	76
Real estate:									
Construction	2,652	1,496	907	2,403	220	2,582	17	2,828	56
Single family residential	13,782	12,450	584	13,034	53	12,878	85	12,772	251
Other commercial	19,065	7,260	10,983	18,243	2,052	19,306	121	19,313	380
Total real estate	35,499	21,206	12,474	33,680	2,325	34,766	223	34,913	687
Commercial:									
Commercial	13,774	4,805	8,112	12,917	3,996	14,543	84	12,943	255
Agricultural	2,184	1,059	--	1,059	--	1,562	8	1,645	32
Total commercial	15,958	5,864	8,112	13,976	3,996	16,105	92	14,588	287
Total	$ 55,752	$ 31,223	$ 20,586	$ 51,809	$ 6,321	$ 54,468	$ 350	$ 52,504	$ 1,050

December 31, 2016						Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
Consumer:									
Credit cards	$ 373	$ 373	$ --	$ 373	$ --	$ 439	$ --	$ 340	$ 10
Other consumer	1,836	1,797	3	1,800	1	1,324	14	882	32
Total consumer	2,209	2,170	3	2,173	1	1,763	14	1,222	42
Real estate:									
Construction	4,275	1,038	2,374	3,412	156	4,474	44	4,692	170
Single family residential	12,970	10,630	1,753	12,383	162	10,897	119	8,762	317
Other commercial	20,993	6,891	7,315	14,206	99	18,981	178	15,113	547
Total real estate	38,238	18,559	11,442	30,001	417	34,352	341	28,567	1,034
Commercial:									
Commercial	11,848	2,734	7,573	10,307	262	4,402	59	3,256	118
Agricultural	2,226	1,215	--	1,215	--	1,604	16	1,003	36
Total commercial	14,074	3,949	7,573	11,522	262	6,006	75	4,259	154
Total	$ 54,521	$ 24,678	$ 19,018	$ 43,696	$ 680	$ 42,121	$ 430	$ 34,048	$ 1,230

At September 30, 2017, and December 31, 2016, impaired loans, net of government guarantees and excluding loans acquired, totaled $51.8 million and $43.7 million, respectively. Allocations of the allowance for loan losses relative to impaired loans were $6.3 million and $680,000 at September 30, 2017 and December 31, 2016, respectively. Approximately $350,000 and $1.1 million of interest income was recognized on average impaired loans of $54.5 million and $52.5 million for the three and nine months ended September 30, 2017. Interest income recognized on impaired loans on a cash basis during the three and nine months ended September 30, 2017 and 2016 was not material.

Included in certain impaired loan categories are troubled debt restructurings (“TDRs”). When the Company restructures a loan to a borrower that is experiencing financial difficulty and grants a concession that it would not otherwise consider, a “troubled debt restructuring” results and the Company classifies the loan as a TDR. The Company grants various types of concessions, primarily interest rate reduction and/or payment modifications or extensions, with an occasional forgiveness of principal.

Under ASC Topic 310-10-35 – *Subsequent Measurement*, a TDR is considered to be impaired, and an impairment analysis must be performed. The Company assesses the exposure for each modification, either by collateral discounting or by calculation of the present value of future cash flows, and determines if a specific allocation to the allowance for loan losses is needed.

Once an obligation has been restructured because of such credit problems, it continues to be considered a TDR until paid in full; or, if an obligation yields a market interest rate and no longer has any concession regarding payment amount or amortization, then it is not considered a TDR at the beginning of the calendar year after the year in which the improvement takes place. The Company returns TDRs to accrual status only if (1) all contractual amounts due can reasonably be expected to be repaid within a prudent period, and (2) repayment has been in accordance with the contract for a sustained period, typically at least six months.

The following table presents a summary of troubled debt restructurings, excluding loans acquired, segregated by class of loans.

	Accruing TDR Loans		Nonaccrual TDR Loans		Total TDR Loans	
(Dollars in thousands)	Number	Balance	Number	Balance	Number	Balance
September 30, 2017						
Real estate:						
Construction	--	$--	1	$432	1	$432
Single-family residential	4	144	14	838	18	982
Other commercial	5	6,877	3	6,152	8	13,029
Total real estate	9	7,021	18	7,422	27	14,443
Commercial:						
Commercial	7	2,191	6	749	13	2,940
Total commercial	7	2,191	6	749	13	2,940
Total	16	$9,212	24	$8,171	40	$17,383
December 31, 2016						
Consumer:						
Other consumer	--	$--	1	$3	1	$3
Total consumer	--	--	1	3	1	3
Real estate:						
Construction	--	--	1	18	1	18
Single-family residential	3	167	29	2,078	32	2,245
Other commercial	23	9,048	2	780	25	9,828
Total real estate	26	9,215	32	2,876	58	12,091
Commercial:						
Commercial	15	1,783	5	297	20	2,080
Total commercial	15	1,783	5	297	20	2,080
Total	41	$10,998	38	$3,176	79	$14,174

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The following table presents loans that were restructured as TDRs during the three and nine months ended September 30, 2017 and 2016, excluding loans acquired, segregated by class of loans.

(Dollars in thousands)	Number of Loans	Balance Prior to TDR	Balance at September 30	Modification Type Change in Maturity Date	Change in Rate	Financial Impact on Date of Restructure
Three Months Ended September 30, 2017						
Commercial:						
Commercial	1	$608	$ 607	$607	$--	$ --
Total commercial	1	608	607	607	--	--
Total	1	$608	$ 607	$607	$--	$ --
Three Months Ended September 30, 2016						
Consumer:						
Other consumer	1	$47	$ 8	$8	$--	$ --
Total consumer	1	47	8	8	--	--
Real Estate:						
Single-family residential	13	742	694	694	--	--
Other commercial	2	835	834	66	768	--
Total real estate	15	1,577	1,528	760	768	--
Commercial:						
Commercial	5	1,387	1,387	1,387	--	--
Total commercial	5	1,387	1,387	1,387	--	--
Total	21	$3,011	$ 2,923	$2,155	$768	$ --
Nine Months Ended September 30, 2017						
Real estate:						
Construction	1	$456	$ 456	$456	$--	$ --
Other commercial	2	7,362	7,362	7,362	--	33
Total real estate	3	7,818	7,818	7,818	--	33
Commercial:						
Commercial	10	1,419	1,407	1,368	39	--
Total commercial	10	1,419	1,407	1,368	39	--
Total	13	$9,237	$ 9,225	$9,186	$39	$ 33
Nine Months Ended September 30, 2016						
Consumer:						
Other consumer	2	$50	$ 11	$11	$--	$ --
Total consumer	2	50	11	11	--	--
Real estate:						
Single-family residential	22	1,538	1,487	933	554	--
Other commercial	27	9,797	9,765	8,633	1,132	--
Total real estate	49	11,335	11,252	9,566	1,686	--
Commercial:						

Commercial	16	1,987	1,959	1,959	--	--
Total commercial	16	1,987	1,959	1,959	--	--
Total	67	$13,372	$ 13,222	$11,536	$1,686	$ --

During the three months ended September 30, 2017, the Company modified one loan with a recorded investment of $608,000 prior to modification that was deemed troubled debt restructuring. The restructured loan was modified by changing the maturity date. Based on the fair value of the collateral, no specific reserve was determined necessary for this loan. Also, there was no immediate financial impact from the restructuring of the loan, as it was not considered necessary to charge-off interest or principal on the date of restructure.

During the nine months ended September 30, 2017, the Company modified 13 loans with a recorded investment of $9.2 million prior to modification which was deemed troubled debt restructuring. The restructured loans were modified by deferring amortized principal payments, changing the maturity date and requiring interest only payments for a period of 12 months. Based on the fair value of the collateral, a specific reserve of $33,000 was determined necessary for these loans. Also, there was no immediate financial impact from the restructuring of these loans, as it was not considered necessary to charge-off interest or principal on the date of restructure.

During the three months ended September 30, 2016, the Company modified 21 loans with a recorded investment of $3.0 million and during the nine months ended September 30, 2016, the Company modified 67 loans with a total recorded investment of $13.4 million prior to modification which were deemed troubled debt restructuring. The restructured loans were modified by changing various terms, including changing the maturity date, deferring amortized principal payments and requiring interest only payments for a period of 12 months. Based on the fair value of the collateral, a specific reserve of $402,000 was determined necessary for these loans. Also, there was no immediate financial impact from the restructuring of these loans, as it was not considered necessary to charge-off interest or principal on the date of restructure.

There was one commercial real estate loan for which a payment default occurred during the nine months ended September 30, 2017, and that had been modified as a TDR within 12 months or less of the payment default, excluding loans acquired. A charge off of approximately $440,000 was recorded for this loan during the third quarter 2017. There was one consumer loan for which a payment default occurred during the nine months ended September 30, 2016, that had been modified as a TDR within 12 months or less of the payment default, excluding loans acquired. A charge off of $39,000 was recorded for this loan. We define a payment default as a payment received more than 90 days after its due date.

In addition to the TDRs that occurred during the period provided in the preceding tables, the Company had TDRs with pre-modification loan balances of $117,000 and $166,500 at September 30, 2017 and 2016, respectively, for which other real estate owned ("OREO") was received in full or partial satisfaction of the loans. The majority of such TDRs were in commercial real estate and residential real estate. At September 30, 2017 and December 31, 2016, the Company had $1,180,000 and $1,714,000, respectively, of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process. At September 30, 2017 and December 31, 2016, the Company had $5,275,000 and $5,094,000, respectively, of OREO secured by residential real estate properties.

Credit Quality Indicators – As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to (i) the weighted-average risk rating of commercial and real estate loans, (ii) the level of classified commercial and real estate loans, (iii) net charge-offs, (iv) non-performing loans (see details above) and (v) the general economic conditions in the States of Arkansas, Kansas, Missouri and Tennessee.

The Company utilizes a risk rating matrix to assign a risk rate to each of its commercial and real estate loans. Loans are rated on a scale of 1 to 8. A description of the general characteristics of the 8 risk ratings is as follows:

- *Risk Rate 1 – Pass (Excellent)* – This category includes loans which are virtually free of credit risk. Borrowers in this category represent the highest credit quality and greatest financial strength.

- *Risk Rate 2 – Pass (Good)* - Loans under this category possess a nominal risk of default. This category includes borrowers with strong financial strength and superior financial ratios and trends. These loans are generally fully secured by cash or equivalents (other than those rated "excellent").

- *Risk Rate 3 – Pass (Acceptable – Average)* - Loans in this category are considered to possess a normal level of risk. Borrowers in this category have satisfactory financial strength and adequate cash flow coverage to service debt requirements. If secured, the perfected collateral should be of acceptable quality and within established borrowing parameters.

- *Risk Rate 4 – Pass (Monitor)* - Loans in the Watch (Monitor) category exhibit an overall acceptable level of risk, but that risk may be increased by certain conditions, which represent "red flags". These "red flags" require a higher level of supervision or monitoring than the normal "Pass" rated credit. The borrower may be experiencing these conditions for the first time, or it may be recovering from weakness, which at one time justified a harsher rating. These conditions may include: weaknesses in financial trends; marginal cash flow; one-time negative operating results; non-compliance with policy or borrowing agreements; poor diversity in operations; lack of adequate monitoring information or lender supervision; questionable management ability/stability.

- *Risk Rate 5 – Special Mention* - A loan in this category has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention loans are not adversely classified (although they are "criticized") and do not expose an institution to sufficient risk to warrant adverse classification. Borrowers may be experiencing adverse operating trends, or an ill-proportioned balance sheet. Non-financial characteristics of a Special Mention rating may include management problems, pending litigation, a non-existent, or ineffective loan agreement or other material structural weakness, and/or other significant deviation from prudent lending practices.

- *Risk Rate 6 – Substandard* - A Substandard loan is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. The loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. This does not imply ultimate loss of the principal, but may involve burdensome administrative expenses and the accompanying cost to carry the loan.

- *Risk Rate 7 – Doubtful* – A loan classified Doubtful has all the weaknesses inherent in a substandard loan except that the weaknesses make collection or liquidation in full (on the basis of currently existing facts, conditions, and values) highly questionable and improbable. Doubtful borrowers are usually in default, lack adequate liquidity, or capital, and lack the resources necessary to remain an operating entity. The possibility of loss is extremely high, but because of specific pending events that may strengthen the asset, its classification as loss is deferred. Pending factors include: proposed merger or acquisition; liquidation procedures; capital injection; perfection of liens on additional collateral; and refinancing plans. Loans classified as Doubtful are placed on nonaccrual status.

- *Risk Rate 8 – Loss* - Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loans has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless loan, even though partial recovery may be affected in the future. Borrowers in the Loss category are often in bankruptcy, have formally suspended debt repayments, or have otherwise ceased normal business operations. Loans should be classified as Loss and charged-off in the period in which they become uncollectible.

Loans acquired are evaluated using this internal grading system. Loans acquired are evaluated individually and include purchased credit impaired loans of $7.9 million and $17.8 million that are accounted for under ASC Topic 310-30 and are classified as substandard (Risk Rating 6) as of September 30, 2017 and December 31, 2016, respectively. Of the remaining loans acquired and accounted for under ASC Topic 310-20, $22.6 million and $47.8 million were classified (Risk Ratings 6, 7 and 8 – see classified loans discussion below) at September 30, 2017 and December 31, 2016, respectively.

Purchased credit impaired loans are loans that showed evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all amounts contractually owed. Their fair value was initially based on the estimate of cash flows, both principal and interest, expected to be collected or estimated collateral values if cash flows are not estimable, discounted at prevailing market rates of interest. The difference between the undiscounted cash flows expected at acquisition and the fair value at acquisition is recognized as interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition are not recognized as a yield adjustment. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows are recognized as impairment.

Classified loans for the Company include loans in Risk Ratings 6, 7 and 8. Loans may be classified, but not considered impaired, due to one of the following reasons: (1) The Company has established minimum dollar amount thresholds for loan impairment testing. Loans rated 6 – 8 that fall under the threshold amount are not tested for impairment and therefore are not included in impaired loans. (2) Of the loans that are above the threshold amount and tested for impairment, after testing, some are considered to not be impaired and are not included in impaired loans.

Total classified loans, excluding loans accounted for under ASC Topic 310-30, were $130.6 million and $166.0 million, as of September 30, 2017 and December 31, 2016, respectively.

The following table presents a summary of loans by credit risk rating as of September 30, 2017 and December 31, 2016, segregated by class of loans. Loans accounted for under ASC Topic 310-30 are all included in Risk Rate 1-4 in this table.

(In thousands)	Risk Rate 1-4	Risk Rate 5	Risk Rate 6	Risk Rate 7	Risk Rate 8	Total
September 30, 2017						
Consumer:						
Credit cards	$176,316	$--	$--	$--	$ --	$176,316
Other consumer	313,725	--	4,221	--	--	317,946
Total consumer	490,041	--	4,221	--	--	494,262
Real estate:						
Construction	507,128	2,085	6,045	16	--	515,274
Single family residential	1,022,886	2,553	22,675	289	--	1,048,403
Other commercial	2,175,968	11,729	43,526	--	--	2,231,223
Total real estate	3,705,982	16,367	72,246	305	--	3,794,900
Commercial:						
Commercial	661,635	6,267	21,057	1	--	688,960
Agricultural	205,524	26	2,276	23	--	207,849
Total commercial	867,159	6,293	23,333	24	--	896,809
Other	25,341	--	--	--	--	25,341
Loans acquired	1,051,889	9,673	29,862	615	--	1,092,039
Total						